# In transition
The latest on revenue recognition implementation

pwc

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# *The new revenue standard – the dust has settled*

## *A compendium of the final amendments*

### At a glance

Since issuing the new revenue standard[1] in May 2014, the FASB and IASB have made various amendments to the guidance. The last of the anticipated amendments – a series of technical corrections issued by the FASB – was finalized on December 21, 2016. This *In transition* updates *In transition US2015-08* and summarizes the final changes to the standards, highlighting the key impacts and the areas in which the FASB and IASB have taken different approaches.

## Summary of the amendments

The FASB and IASB have issued several amendments to the new revenue standard as a result of feedback from stakeholders and discussions by the Revenue Recognition Transition Resource Group (TRG). The TRG is a working group established by the FASB and IASB to debate and provide feedback on potential implementation issues related to the new revenue standard. The appendix to this publication includes a list of the TRG issues discussed to date.

The effective date of the new revenue standard is 2018 for calendar year-end public companies, with the option to adopt earlier. The boards have issued amendments and clarifications to various aspects of the guidance. These amendments were issued in a series of FASB amendments and one comprehensive IASB amendment. In December 2016, the FASB issued technical corrections to the standard, which are the last of the amendments that are currently planned related to the new revenue standard.

[1] ASC 606, *Revenue from Contracts with Customers*, and ASC 340-40, *Other Assets and Deferred Costs—Contracts with Customers*, and IFRS 15, *Revenue from Contracts with Customers*

<table>
<tr><th>Topic</th><th>FASB amendment</th><th>IASB amendment</th><th>Converged?</th></tr>
<tr><td>Identifying performance obligations</td><td rowspan="2">Licensing and performance obligations, issued April 2016</td><td rowspan="4">Clarifications to IFRS 15, issued April 2016</td><td>Partially</td></tr>
<tr><td>Licenses</td><td>Partially</td></tr>
<tr><td>Principal versus agent</td><td>Principal versus agent considerations, issued March 2016</td><td>Yes</td></tr>
<tr><td>Transition</td><td rowspan="4">Narrow scope improvements, issued May 2016</td><td>Partially</td></tr>
<tr><td>Collectibility</td><td>None</td><td>No</td></tr>
<tr><td>Presentation of sales taxes</td><td>None</td><td>No</td></tr>
<tr><td>Noncash consideration</td><td>None</td><td>No</td></tr>
<tr><td>Disclosure of performance obligations</td><td rowspan="4">Technical corrections and improvements, issued December 2016</td><td>None</td><td>No</td></tr>
<tr><td>Provisions for losses on construction-type and production-type contracts</td><td>None</td><td>No</td></tr>
<tr><td>Scoping guidance</td><td>None</td><td>No</td></tr>
<tr><td>Other technical corrections</td><td>None</td><td>No</td></tr>
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## Identifying performance obligations

A key aspect of the new revenue standard is identifying the performance obligations, which are the unit of account for applying the guidance. Various stakeholders provided feedback that it is not clear how to determine whether a good or service is separately identifiable from other promises in a contract. Additionally, some stakeholders raised concerns about the cost and complexity of applying the guidance to shipping and handling services and immaterial performance obligations. In response, the FASB issued amendments to clarify its guidance. The IASB issued more limited changes to the related examples.

<table>
<tr><th>Issue</th><th>US GAAP – FASB amendments</th><th>IFRS – IASB amendments</th></tr>
<tr><td rowspan="2">Determining whether a good or service is “separately identifiable” from other promises in the contract</td><td>The FASB clarified the principle for determining whether a good or service is “separately identifiable” from other promises in the contract. The revised principle states that the objective is to determine whether the nature of an entity’s promise is to transfer individual goods or services to the customer, or to transfer a combined item (or items) to which the individual goods and services are inputs. The FASB also amended examples and added several new examples to illustrate these principles.</td><td>The IASB issued the same amendments the FASB made to clarify the principle. The IASB also remained mostly converged with the FASB by amending examples and adding new examples; however, the IASB did not include two FASB examples illustrating the accounting for a license to anti-virus software and the application of the “series guidance” to a hotel management services contract.</td></tr>
<tr><td colspan="2">Impact:<br>The amendments help clarify how to apply the guidance on identifying performance obligations in various scenarios, such as when a vendor sells a piece of equipment and a related installation service. The amendments made to the examples result in differences between US GAAP and</td></tr>
</table>

| Issue | US GAAP – FASB amendments | IFRS – IASB amendments |
|---|---|---|
| | IFRS; however, the financial reporting outcomes are generally expected to be the same despite the differences. | |
| Shipping and handling activities | The FASB's amendment allows entities to elect to account for shipping and handling activities that occur after the customer has obtained control of a good as a fulfilment cost rather than an additional promised service. | The IASB did not issue a similar amendment. Entities are therefore required to consider whether shipping and handling services give rise to a separate performance obligation. |
| | *Impact:*<br>The FASB's amendment reduces the cost and complexity of applying the revenue standard for some US GAAP reporters. However, this election may result in diversity in practice that could, in some instances, have a material impact to the financial statements. It also creates a difference between entities applying US GAAP that elect the expedient and entities applying IFRS. | |
| Immaterial goods or services | The FASB clarified that entities are not required to identify promised goods or services that are immaterial in the context of the contract. | The IASB did not issue a similar amendment; however, the IASB included additional discussion in the basis for conclusions stating that entities should consider the overall objective of the revenue standard, as well as materiality in identifying promised goods or services in a contract. |
| | *Impact:*<br>The FASB's intent is to not require US GAAP reporters to incur time and cost to identify and track immaterial items. The IASB did not issue a similar amendment; however, the IASB has indicated that IFRS does not require entities to account for immaterial items. | |

## Licenses

The new revenue standard includes specific guidance on the accounting for licenses of intellectual property (IP). This guidance addresses whether the license is a right to access or a right to use the entity's IP, which determines whether revenue is recognized over time or at a point in time. The standard also states that revenue from sales-based and usage-based royalties promised in exchange for a license of IP should not be recognized until the subsequent sale or usage occurs. This is an exception to the general guidance for variable consideration, which requires entities to estimate variable fees, subject to a constraint.

The license guidance has raised a number of questions and implementation challenges. As a result, both the FASB and IASB issued amendments to the license guidance.

| Issue | US GAAP – FASB amendments | IFRS – IASB amendments |
|---|---|---|
| The nature of a company's promise in granting a license | Under the FASB's amendment, licenses are classified as either "symbolic" IP (e.g., brand names or logos) or "functional" IP (e.g., software or completed media content). All licenses of symbolic IP are recognized over time as a "right to access" license. Functional IP is recognized at a point in time as a "right to use" license unless the functionality of the IP is expected to substantively change as a result of activities of the entity that do not transfer a good or service to the customer. The FASB also added new examples and amended existing examples. | The IASB issued limited amendments to clarify the existing principle. The amendments clarify that an entity's activities significantly affect the IP (a criterion to determine if the license is a "right to access" IP) if (a) the entity's activities change the form or functionality of the IP or (b) the utility of the IP is substantially derived from or dependent upon those activities (e.g., a brand name). The IASB also amended existing examples to illustrate the clarified principle. The IASB did not incorporate the new examples that were added by the FASB. |

<table>
<tr><th>Issue</th><th>US GAAP – FASB amendments</th><th>IFRS – IASB amendments</th></tr>
<tr><td></td><td colspan="2">Impact:<br>The FASB’s amendment is intended to make the guidance more operational and reduce diversity by establishing a “bright line” between functional and symbolic IP. The amendments result in divergence between US GAAP and IFRS. The boards have indicated that they believe the financial reporting results will be the same in most cases. We believe there will be some instances when the conclusion will differ under US GAAP and IFRS. For example, under US GAAP, revenue from a license of symbolic IP will be recognized over time even if the licensor is clearly performing no activities related to the IP. The licensor will recognize revenue at a point in time under IFRS under this scenario since it is no longer supporting the IP.</td></tr>
<tr><td rowspan="2">Determining whether the license guidance applies when the license is not distinct</td><td>The FASB’s amendment clarifies that an entity may need to consider the nature of a license, even if it is not distinct from other goods or services in the contract. An example is a ten-year term license that is combined with a two-year service into a single performance obligation. In that situation, it could be necessary to assess whether the license is a right to use IP (revenue recognized at a point in time) or a right to access IP (revenue recognized over time) to determine the pattern of recognition for the combined performance obligation.</td><td>The IASB did not amend its standard with the same specific guidance; however, the IASB states in its basis for conclusions that an entity would apply the licenses guidance to determine if the performance obligation is a right to access or a right to use IP when the license is distinct or the performance obligation includes a license as its primary or dominant component.</td></tr>
<tr><td colspan="2">Impact:<br>Although the FASB and the IASB use different words, we believe entities will often reach similar conclusions under the two standards. There may be some circumstances in which conclusions will differ due to the IASB’s specific reference to applying the licenses guidance only when the license is distinct or the license is the primary or dominant component of the performance obligation.</td></tr>
<tr><td rowspan="2">Determining whether contractual restrictions impact the number of promises in a contract</td><td>The FASB clarified that a contract could contain multiple licenses that represent separate performance obligations and that contractual restrictions of time, geography, or use are attributes of the license. The FASB also added examples to illustrate the principle.</td><td>The IASB did not issue a similar amendment or include the same additional examples; however, the IASB included discussion in the basis for conclusions regarding how to account for restrictions within a license.</td></tr>
<tr><td colspan="2">Impact:<br>The FASB’s amendment uses different words and includes additional examples, resulting in divergence between US GAAP and IFRS. Despite the differing language, we believe the concepts in the two standards are similar; however, entities might reach different conclusions under the two standards given US GAAP contains more specific guidance. For example, the FASB included an illustration of a contract to embed an entity’s functional IP in two classes of the customer’s consumer products, which are concluded to be separate performance obligations. Significant judgment may be required to assess whether a contractual provision in a license creates an obligation to transfer multiple licenses (and therefore separate performance obligations) or whether the provision is a restriction that represents an attribute of a single license.</td></tr>
<tr><td>License renewals</td><td>The FASB’s amendment specifies that revenue from the renewal or extension of a license cannot be recognized until the customer can use and benefit from the license renewal (i.e., the beginning of the renewal period). The FASB added Example 59, Case B to illustrate the accounting for the renewal of a license.</td><td>The IASB did not include specific guidance on license renewals.</td></tr>
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| Issue | US GAAP – FASB amendments | IFRS – IASB amendments |
|---|---|---|
| | *Impact:* The specific guidance on license renewals in US GAAP creates divergence between US GAAP and IFRS. The IASB acknowledged in the basis for conclusions that in some cases this may result in recognizing revenue for a renewal or extension at a later date under US GAAP as compared to IFRS. | |
| The exception for licenses of IP with sales- and usage-based royalties | The FASB clarified that an entity should not split a royalty into the portion that is subject to the royalty exception and the portion that is not. Additionally, the amendment clarifies that the royalty exception applies when the predominant item to which the royalty relates is a license. | The IASB issued the same amendment. |
| | *Impact:* The boards' amendment helps clarify in which circumstances the royalty exception applies. The boards did not provide further guidance on the definition of "predominant," so this assessment will require judgment. | |

## Principal versus agent

When more than one party is involved in a revenue transaction, the new revenue standard requires an entity to determine whether it is the principal (providing the goods or services itself) or an agent (arranging for another party to provide those goods or services). A principal reports revenue based on the gross amount received from the customer and an agent reports only its fee or commission (i.e., net of the amount it remits to the other party). The standard states that an entity is a principal if it controls a good or service before it is transferred to the customer. Stakeholders expressed concerns with how to identify the unit of account for the assessment, how to apply the control principle to services, and the relationship between the control principle and the indicators in the guidance. Both boards therefore issued targeted amendments to clarify the guidance and the related examples.

| Issue | US GAAP – FASB amendments | IFRS – IASB amendments |
|---|---|---|
| Identifying the "unit of account" for the principal versus agent assessment | The FASB's amendment clarifies the "unit of account" for the principal versus agent assessment and requires an entity to first identify the specified good or service being provided to the customer. The amendments clarify that an entity may be a principal for one or more specified goods or services in a contract and an agent for others. | The IASB issued the same amendments. |
| Applying the notion of control to services performed by another party | The FASB's amendment clarifies that a principal can control a service if it directs another party to perform the service for the customer on its behalf. The amendment also clarifies that an entity can control a good or service when it provides a significant service to integrate other goods or services into the specified good or service for which the customer has contracted. | The IASB issued the same amendments. |
| The relationship between the notion | The FASB's amendment clarifies that the indicators assist an entity in evaluating whether | The IASB issued the same amendments. |

| Issue | US GAAP – FASB amendments | IFRS – IASB amendments |
|---|---|---|
| of control and the indicators | it controls a good or service before it is transferred to a customer (i.e., the indicators do not override or replace the control evaluation). The amendment reframes the existing indicators to provide evidence of when an entity is a principal, rather than when an entity is an agent, and removes two of the indicators ("the entity's consideration is in the form of a commission" and "the entity is not exposed to credit risk"). The amendment also clarifies that each of the indicators may be more or less relevant to the assessment depending on the terms and conditions of the contract. | |
| | *Impact:* We expect gross versus net reporting conclusions will not change as compared to existing guidance in many circumstances. It is possible, however, that conclusions could change under the new revenue standard based on the control principle and other clarifications to the guidance. Entities should plan sufficient time to review and understand the terms of their contracts with customers and vendors, which can often be complex, to ensure appropriate conclusions are reached under the new revenue standard. | |

## Transition

The new revenue standard includes two transition alternatives: the modified retrospective transition approach and the full retrospective transition approach. The standard also includes certain practical expedients to simplify transition. Both boards issued clarifications and new practical expedients in response to stakeholder feedback in order to further ease transition.

| Issue | US GAAP – FASB amendments | IFRS – IASB amendments |
|---|---|---|
| Contract modifications | The FASB provided a "use of hindsight" practical expedient intended to simplify the transition for contracts modified multiple times prior to the initial application of the standard. An entity applying the expedient will determine the transaction price of a contract at the date of initial application and perform a single, standalone selling price allocation (with the benefit of hindsight) to all of the satisfied and unsatisfied performance obligations in the contract from inception. | The IASB provided the same practical expedient; however, entities can choose to apply the expedient either at the beginning of the earliest period presented or at the date of initial application. |
| | *Impact:* The boards made similar, but not identical, amendments intended to ease transition for contracts that have been modified multiple times. The primary difference is that the FASB's amendment provides one date at which the expedient can be applied, whereas the IASB permits a choice of dates. | |
| Completed contracts at transition | The FASB's amendments permit entities using the modified retrospective transition approach to apply the new standard to either all contracts or only contracts that are not yet complete as of the date of initial application. Additionally, the FASB's amendments change the definition of a | The IASB did not change the definition of completed contracts. A completed contract is a contract for which the entity has transferred all of the goods or services identified in accordance with previous revenue guidance. However, the IASB's amendment permits |

<table>
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<tr><td rowspan="2"></td><td>“completed contract” to a contract for which all, or substantially all, of the revenue was recognized under previous revenue guidance.</td><td>entities to apply the new standard either to all contracts or only contracts that are not yet complete under the modified retrospective transition approach.<br><br>The IASB also permits entities using the full retrospective transition approach to not restate contracts that are completed contracts as of the beginning of the earliest period presented.</td></tr>
<tr><td colspan="2">Impact:<br>The FASB’s amendment to change the definition of a “completed contract” resolves certain implementation issues that were raised at the TRG’s July 2015 meeting. Some of these issues will remain under IFRS. The different definitions of a "completed contract" could also lead to reduced comparability between US GAAP and IFRS reporters upon transition. More contracts are likely to meet the IASB’s definition of a completed contract than the FASB’s definition. A “completed contract” under the IASB’s definition includes a contract for which an entity has transferred all of the goods or services, but has not yet recognized all of the revenue (e.g., due to uncertainties in the contract price). The contract does not qualify as a “completed contract” under the FASB definition unless substantially all of the related revenues have been recognized. Further, IFRS reporters might encounter fact patterns in which they will continue to recognize revenue based on the previous revenue guidance related to a “completed contract” after adoption of the new revenue standard.<br><br>Companies can also elect to apply the new standard to all contracts under the modified retrospective transition approach, which requires restating more contracts, but avoids the transition issues associated with applying the standard only to contracts that are not yet complete.</td></tr>
<tr><td rowspan="2">Disclosure requirements for the full retrospective transition approach</td><td>The FASB issued a technical correction to clarify the disclosure requirements for entities applying the full retrospective transition method. Entities applying that method will record a cumulative effect adjustment in the earliest period presented and disclose the impact of applying the standard to the periods retrospectively adjusted, but are not required to disclose the effect of the accounting change for the year of adoption.</td><td>The disclosure requirements under IFRS do not require entities to disclose the effect of the accounting change in the year of adoption; therefore, no technical correction was necessary.</td></tr>
<tr><td colspan="2">Impact:<br>The FASB’s technical correction provides relief to entities applying the full retrospective transition method as they will not be required to track the differences between applying the current guidance and the new standard in the year of adoption.</td></tr>
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## Collectibility

The new standard requires an entity to assess whether collection of consideration is probable. If collection is not probable, the standard provides specific guidance for recognizing revenue for any consideration received. Some stakeholders expressed concerns that the accounting for contracts that fail the collectibility criterion is punitive and expressed differing views about how the collectibility assessment should be performed. The FASB amended the guidance to address these concerns. The IASB did not amend its standard as it believes the discussion in the standard and the basis for conclusions provides adequate guidance.

| Issue | US GAAP – FASB amendments | IFRS – IASB amendments |
|---|---|---|
| Assessing collectibility of contract consideration | The FASB clarified that entities should consider, as part of the collectibility assessment, their ability to mitigate their exposure to credit risk, for example by ceasing to provide goods or services in the event of nonpayment. The amendment also clarifies when revenue should be recognized for nonrefundable consideration received if a contract fails the collectibility assessment. The FASB added new examples and revised the existing example to illustrate the collectibility guidance. | The IASB did not amend its standard; however, the IASB included additional discussion in the basis for conclusions stating that entities should consider, as part of the collectibility assessment, their ability to mitigate exposure to credit risk throughout the contract, for example, by ceasing to provide goods or services or requiring advance payments. |
| | *Impact:* The FASB's amendment is intended to narrow the population of contracts that fail the collectibility assessment. The FASB's amendment results in differences between US GAAP and IFRS; however, differences already existed in this area given the different definitions of "probable" in US GAAP (which is generally interpreted as a 75-80% likelihood) and IFRS (which is greater than 50% likelihood). Based on the IASB's clarifications in the basis of conclusions and the fact that we expect the collectibility threshold will typically be met under both definitions, we do not expect a significant difference in financial reporting outcomes in most cases. | |

## Sales tax presentation

The new revenue standard requires taxes collected from customers to be assessed on a jurisdiction-by-jurisdiction basis to determine if these amounts should be presented net against revenue or on a gross basis (as revenue and an operating expense). Assessing each tax on a jurisdiction-by-jurisdiction basis might be a complicated and time consuming process, particularly for US GAAP reporters that previously could elect to present these taxes on a gross or net basis. The FASB decided to issue an amendment allowing entities to elect to present all sales taxes on a net basis. The IASB decided not to permit a policy election, largely because there is not a similar policy election under IFRS today.

| Issue | US GAAP – FASB amendments | IFRS – IASB amendments |
|---|---|---|
| Sales tax presentation | The FASB's amendment allows an entity to make an accounting policy election to present all sales taxes collected from customers on a net basis. Entities that do not elect the new practical expedient will have to evaluate each type of tax on a jurisdiction-by-jurisdiction basis to determine which amounts to exclude from revenue as amounts collected on behalf of third parties. Entities will be required to disclose the policy, if elected. | The IASB did not issue a similar amendment. |
| | *Impact:* The FASB's amendment could reduce cost and complexity for certain US GAAP reporters. However, it is a change from today's US GAAP, which allows entities to elect to present such amounts on a gross or net basis. The policy election also results in a specific difference between entities applying US GAAP that make the election (if sales tax would have otherwise been reported on a gross basis) and entities applying IFRS. | |

## Noncash consideration

The new revenue standard states that entities should measure noncash consideration received from a customer at fair value. Stakeholders questioned at which date fair value should be measured and how to apply the constraint on variable consideration to noncash consideration. As a result, the FASB issued amendments to address these matters. The IASB did not issue an amendment as it believes these issues should be addressed more comprehensively in a separate project to avoid unintended consequences.

| Issue | US GAAP – FASB amendments | IFRS – IASB amendments |
|---|---|---|
| Determining the measurement date for noncash consideration | The FASB's amendment requires entities to measure the fair value of noncash consideration at contract inception and amends the related example; however, the FASB decided not to specify how to measure fair value. | The IASB did not issue a similar amendment. |
| Determining how to apply the variable consideration guidance to contracts with noncash consideration | The FASB clarified that the guidance on constraining the estimate of variable consideration applies to variability resulting from reasons other than the form of consideration. Therefore, the variable consideration guidance will not apply, for example, to variability related to changes in stock price when consideration is in the form of equity instruments. | The IASB did not issue a similar amendment. |
| | *Impact:*<br>The FASB's amendment is a change from existing US GAAP related to equity instruments received in exchange for goods or services [ASC 505-50, *Equity-Based Payments to Non-Employees*]. Under current guidance, the fair value of an equity instrument is typically measured when the entity's performance is complete.<br>The FASB's amendment requires entities to recognize changes in the fair value of noncash consideration after contract inception as a gain or loss in earnings (i.e., excluded from revenue from contracts with customers). This could raise additional accounting questions, such as the implication of changes in the fair value of noncash consideration that occur prior to an entity's performance.<br>The amendment also results in a difference between US GAAP and IFRS; in particular, the same example (i.e., Example 31, Entitlement to Noncash Consideration) now has differing conclusions under the two standards. There might also be diversity in practice under IFRS given that there is no specific guidance regarding the measurement date. | |

## Disclosure of performance obligations

The new standard requires disclosures that provide information about an entity's remaining performance obligations, including the transaction price allocated to unsatisfied performance obligations and the expected timing of recognition. Stakeholders questioned whether this required disclosure is needed in situations in which an entity is not required to estimate variable consideration at contract inception (e.g., when consideration is in the form of a sales-based or usage-based royalty on a license of IP). The FASB amended its standard to address these concerns. The IASB did not amend its standard.

| Issue | US GAAP – FASB amendments | IFRS – IASB amendments |
|---|---|---|
| Disclosure of remaining performance obligations | The FASB's amendment provides entities with an election to exclude quantitative disclosures for certain types of variable consideration, including sales- and usage-based royalties from licenses of IP and variable consideration allocated entirely to unsatisfied performance obligations. Entities electing to exclude the | The IASB did not issue a similar amendment. |

| Issue | US GAAP – FASB amendments | IFRS – IASB amendments |
|---|---|---|
| | quantitative disclosures are required to provide additional qualitative disclosures. The FASB also amended Example 42 to illustrate this guidance. | |
| Disclosure of revenue recognized from prior period performance obligations | The FASB made a minor technical correction to clarify that the disclosure of revenue recognized from performance obligations satisfied (or partially satisfied) in prior periods is required for all performance obligations. | The IASB did not issue a similar amendment. |
| | *Impact:*<br>The FASB's amendment provides additional relief to entities from the new disclosures requirements. Entities can elect to exclude quantitative disclosure for certain types of variable consideration. Absent this election, entities will have to estimate the transaction price in these situations solely for purposes of the disclosure requirement. The IASB has not provided a similar election; however, IFRS reporters should consider the materiality guidance in IAS 1, *Presentation of Financial Statements*. | |

## Provisions for losses on construction-type and production-type contracts

The new revenue standard does not address the accounting for loss provisions on onerous contracts; therefore, the existing guidance in this area was retained. IFRS reporters will continue to account for onerous contracts in accordance with IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*. US GAAP reporters with contracts that are subject to existing industry- or transaction-specific guidance that addresses loss recognition will continue to apply that specific guidance to determine whether a loss should be recognized.

Existing US GAAP guidance for construction-type and production-type contracts requires a loss assessment to be performed at the overall contract level unless the contract is segmented or combined. The FASB made a technical amendment to clarify the level at which the assessment should be performed once the new standard is adopted.

| Issue | US GAAP – FASB amendments | IFRS – IASB amendments |
|---|---|---|
| Loss provisions for onerous contracts | The FASB's amendment clarifies that the contract level is the lowest level required for determining loss provisions for construction-type and production-type contracts. However, the FASB's amendment allows an entity to make a policy election to determine the provision for losses at the performance obligation level. | The IASB did not issue a similar amendment. |
| | *Impact:*<br>This amendment provides US GAAP reporters applying specific contract loss guidance with the option to determine loss provisions at the contract or performance obligation level and, therefore, an entity's accounting for loss provisions could change upon adoption of the new standard. Entities must apply the accounting policy election consistently to similar types of contracts. | |

## Scoping guidance

The FASB issued multiple amendments in response to questions regarding the scope of the new revenue standard.

| Issue | US GAAP – FASB amendments | IFRS – IASB amendments |
|---|---|---|
| Insurance contracts | The FASB clarified that all contracts within the scope of Topic 944, *Financial Services – Insurance,* (not just insurance contracts) are excluded from the scope of the new revenue standard. The FASB also included a discussion in the basis for conclusions clarifying how insurance entities should assess whether contracts or portions of contracts are in the scope of the new standard. | The IASB did not issue a similar amendment. |
| Loan guarantee fees | The FASB clarified that guarantee fees within the scope of Topic 460, *Guarantees,* (other than product or service warranties) are not in the scope of the new revenue standard. | The IASB did not issue a similar amendment. |
| Fixed-odds wagering contracts | The FASB clarified that fixed-odds wagering contracts in the scope of Topic 924, *Entertainment - Casinos,* are excluded from the derivative instruments guidance and therefore are within the scope of the revenue standard. | The IASB did not issue a similar amendment. |
| | *Impact:* The amendments are intended to clarify the scope of the new revenue standard and the interaction with other US GAAP guidance. Entities could reach different scoping conclusions depending on whether they apply US GAAP or IFRS. For example, fixed-odds wagering contracts are typically outside the scope of the revenue standard for IFRS reporters, but are specifically within the scope of the revenue standard for US GAAP reporters. | |

## Other technical corrections

The FASB's amendments also include other minor corrections to the new revenue standard.

| Issue | US GAAP – FASB amendments | IFRS – IASB amendments |
|---|---|---|
| Impairment testing of contract costs | The FASB clarified the amounts that should be included when performing impairment testing for capitalized contract costs, including amounts related to expected contract renewals and extensions. The FASB also clarified the interaction of the impairment test for contract costs with other impairment guidance. | The IASB did not issue a similar amendment. |
| Contract modifications example | The FASB amended Example 7 to better align it with the contract modifications principles in the new revenue standard. | The IASB did not issue a similar amendment. |
| Presentation of contract balances example | The FASB amended Example 38, Case B, to better align the analysis in the example with the guidance around the presentation of a receivable. | The IASB did not issue a similar amendment. |
| Refund liability example | The FASB updated Example 40 to remove the reference suggesting that a refund liability should be characterized as a contract liability. | The IASB did not issue a similar amendment. |

| Issue | US GAAP – FASB amendments | IFRS – IASB amendments |
|---|---|---|
| Advertising costs | The FASB reinstated the existing cost accrual guidance for advertising costs because it was inappropriately superseded. The amendment also moves the guidance to Topic 720, *Other expenses*. | The IASB did not issue a similar amendment. |
| Cost capitalization for fund advisors | The FASB's amendment aligns the cost-capitalization guidance for advisors to both private and public funds. | The IASB did not issue a similar amendment. |
| | *Impact:*<br>The FASB's technical corrections are narrow in nature and do not change the principles in the standard. The IASB did not make the same changes and has a separate process for considering potential technical corrections as part of its annual improvements process for all international standards. | |

## Next steps

With the issuance of the technical corrections amendments, there are no outstanding exposure drafts or ongoing deliberations related to the revenue standard. Both boards have indicated that they are not inclined to issue further amendments until after the standard is effective.

Additionally, there are currently no additional TRG meetings scheduled. The FASB continues to encourage companies to submit questions to the FASB staff through the technical inquiry process. The FASB will also continue to assess whether it is necessary to schedule future TRG meetings. As discussed at the November 2016 TRG meeting, the FASB plans to perform additional outreach to preparers and other stakeholders related to the accounting for pre-production activities. The FASB will assess, based on this outreach, whether any future standard setting is required on this topic.

Industry task forces at the AICPA continue to discuss industry-specific implementation issues, and have released various working drafts of industry guidance, which are available for public comment on the AICPA's website.

## *Appendix – TRG agenda topics*

The following table summarizes the issues discussed by the TRG and provides links to the referenced TRG paper. The TRG papers should be read in conjunction with the related TRG meeting minutes. Replays and minutes of the meetings are available on the TRG pages of the FASB and IASB's websites. In addition to the earlier editions of *In transition*, please visit our Revenue recognition page on www.CFOdirect.com for additional information on the topics listed below.

| Date | TRG Agenda Ref # | Topic discussed | Anticipated next steps |
|---|---|---|---|
| July 18, 2014 | 1 | Gross versus Net Revenue | FASB and IASB issued final amendments in March and April 2016, respectively |
| | 2 | Gross versus Net Revenue: Amounts Billed to Customers | FASB and IASB issued final amendments in May and April 2016, respectively |
| | 3 | Sales-Based and Usage-Based Royalties in Contracts with Licenses and Goods or Services Other than Licenses | Boards issued final amendments in April 2016 |
| | 4 | Impairment Testing of Capitalized Contract Costs | No further action expected |
| October 31, 2014 | 6 | Customer Options for Additional Goods and Services and Nonrefundable Upfront Fees | No further action expected |
| | 7 | Presentation of a Contract as a Contract Asset or a Contract Liability | No further action expected |
| | 8 | Determining the Nature of a License of Intellectual Property | Boards issued final amendments in April 2016 |
| | 9 | Distinct in the Context of the Contract | Boards issued final amendments in April 2016 |
| | 10 | Contract Enforceability and Termination Clauses | No further action expected |
| January 26, 2015 | 12 | Identifying Promised Goods or Services | FASB issued final amendments in April 2016 |
| | 13 | Collectibility | FASB issued final amendments in May 2016 |
| | 14 | Variable Consideration | No further action expected |
| | 15 | Noncash Consideration | FASB issued final amendments in May 2016 |
| | 16 | Stand Ready Obligations | No further action expected |
| | 17 | Islamic Finance Transactions | No further action expected |
| | 23 | Costs to Obtain a Contract | No further action expected |
| | 24 | Contract Modifications | FASB and IASB issued final amendments in May and April 2016, respectively |
| March 30, 2015 | 26 | Contributions | No further action expected |
| | 27 | Series of Distinct Goods or Services | No further action expected |
| | 28 | Consideration Payable to a Customer | Topic discussed at July 13, 2015 TRG meeting. See Agenda Ref #37. |
| | 29 | Warranties | No further action expected |
| | 30 | Significant Financing Component | No further action expected |
| | 31 | Variable Discounts | No further action expected |
| | 32 | Exercise of a Material Right | No further action expected |
| | 33 | Partially Satisfied Performance Obligations | No further action expected |

| Date | TRG Agenda Ref # | Topic discussed | Anticipated next steps |
|---|---|---|---|
| July 13, 2015 | 35 | Accounting for Restocking Fees and Related Costs | No further action expected |
| | 36 | Credit Cards | No further action expected |
| | 37 | Consideration Payable to a Customer | No further action expected |
| | 38 | Portfolio Practical Expedient and Application of Variable Consideration | No further action expected |
| | 39 | Application of the Series Provision and Allocation of Variable Consideration | No further action expected |
| | 40 | Practical Expedient for Measuring Progress toward Complete Satisfaction of a Performance Obligation | No further action expected |
| | 41 | Measuring Progress when Multiple Goods or Services are Included in a Single Performance Obligation | No further action expected |
| | 42 | Completed Contracts at Transition | FASB and IASB issued final amendments in May and April 2016, respectively |
| | 43 | Determining When Control of a Commodity Transfers | No further action expected |
| November 9, 2015 | 45 | Licenses – Specific application issues about restrictions and renewals | Boards issued final amendments in April 2016 |
| | 46 | Pre-production Activities | Further industry outreach expected to determine whether future standard-setting activity is necessary |
| | 47 | Whether Fixed Odds Wagering Contracts are Included or Excluded from the Scope of Topic 606 | FASB issued a technical correction to the scoping guidance in December 2016 |
| | 48 | Customer Options for Additional Goods and Services | No further action expected |
| April 18, 2016 | 50 | Scoping Considerations for Incentive-Based Capital Allocations | No further action expected |
| | 51 | Contract Asset Treatment in Contract Modifications | No further action expected |
| | 52 | Scoping Considerations for Financial Institutions | No further action expected |
| | 53 | Evaluating How Control Transfers Over Time | No further action expected |
| | 54 | Class of Customer | No further action expected |
| November 7, 2016 | 56 | Over Time Revenue Recognition | No further action expected |
| | 57 | Capitalization and Amortization of Incremental Costs of Obtaining a Contract | No further action expected |
| | 58 | Sales-Based or Usage-Based Royalty with Minimum Guarantee | No further action expected |
| | 59 | Payments to Customers | No further action expected |

PwC has developed the following publications and resources related to the new revenue recognition standard, covering topics relevant to a broad range of constituents.

- PwC Global Guide: *Revenue from contracts with customers*
- Point of View: *Preparing for the new revenue standard — Are you ready?*
- In transition US2016-02, *Transition Resource Group discusses contract costs, payments to customers, and other topics*
- In transition US2016-01, *Transition Resource Group debates revenue recognition implementation issues*
- In transition US2015-08, *The new revenue standard – changes on the horizon*
- In transition US 2015-07, *Transition Resource Group discusses optional purchases, licenses, and other topics*
- In transition US2015-06, *Transition Resource Group discusses variable consideration, transition, the series guidance, scope, and more*
- In transition US2015-05, *FASB and IASB agree to clarify principal versus agent guidance*
- In transition US2015-04, *TRG holds fourth meeting since issuance of new revenue standard*
- In transition US2015-03, *FASB and IASB decide on additional changes to revenue standard*
- In transition US2015-02, *FASB and IASB debate potential changes to revenue standard*
- In transition US2015-01, *Transition Resource Group holds third meeting since issuance of new revenue standard*
- In transition US2014-01, *Transition Resource Group debates revenue recognition implementation issues*
- In the loop: *Reporting revenue—new model, new strategy?*

Click on the titles to obtain a copy of each publication. PwC clients who would like to obtain any of these publications or have questions about this *In Transition* should contact their engagement partner.

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